Bargain Hunters: These 2 Dollar-Store Stocks Are on Sale

Description

With markets unsure of where to head next after a year of bearish behaviour, it seems like now is as good a time as any to go bargain hunting. Indeed, meme stocks and retail interest have faded considerably in recent quarters. And that's a good thing for those with cash on the sidelines, looking for places to put it to work.

In this piece, we'll have a look at two dollar-store stocks that I think are themselves a great bargain at current levels, given the economic headwinds ahead and strong growth profiles that could stand up to mounting pressures brought forth by interest rate hikes.

No doubt, a recession isn't nearly as bad for discount retailers as it is for their less-value-conscious peers. In any case, we'll have a closer look at two names that should be atop your radar!

Canadian dollar-store chain **Dollarama** (TSX:DOL) and U.S. discount retailer popular with tweens **Five Below** (NASDAQ:FIVE) are intriguing options for those looking to stretch their dollar far as we head into February 2023.

Dollarama

Dollarama stock has been incredibly dependable over the past year, surging more than 60% as the broader markets hit the pause button. Though Dollarama's momentum can't last forever. After such a sharp rally, the valuation is a tad on the high end at more than 32 times trailing price-to-earnings (P/E). For a dollar store retailer, that's expensive.

With a recession closing in, though, I'd argue the premium price tag is worth paying. If anything, the name can help keep your TFSA or RRSP afloat if a Canadian recession proves rockier than pundits expect. Further, let's not forget about the firm's push to expand across Canada and Latin America through its Dollarcity stake.

The key to Dollarama's success is its ability to offer price assurance. Amid inflation and a growing number of layoffs sweeping the nation, it's hard to maintain a budget. Dollarama offers a slew of necessities on the cheap. As inflation meets a recession, price assurance and a great value will continue to bode well for well-run dollar-store chains like Dollarama.

Look for Dollarama to use its windfall to fund its longer-term growth. It's very much in growth mode and for that reason, shares seem "on sale" despite the hefty P/E.

Five Below

FiveBelow is one of the most interesting retailers worth venturing south of the border for. The company used to sell a wide range of goods for $5 and below. Over the years, the price cap has crept higher, with the firm selling some items that retail for as much as $25. Still, most of Five Below's goods hold to the firm name's promise of offering goods at $5 and below.

Like Dollarama, Five Below is a great way to sail through an economic hailstorm. The stock has bounced back around 70% since bottoming in mid-2022. I think new highs are ahead as the firm looks to meet or beat high guidance for the fourth quarter.

At a 46.6 times trailing P/E, FIVE stock is pricier than DOL. Nonetheless, this discount chain can help you add a defensive growth jolt to your portfolio like few other firms today!

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)
2. NASDAQ:FIVE (Five Below, Inc.)

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1. Business Insider
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3. Koyfin
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